



NOTES TO FINANCIAL STATEMENTS

31 March 2005

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- trading of tanned leather
- trading of fur pelts
- manufacture and sale of leather garments
- manufacture and sale of fur garments
- manufacture and sale of fabric garments

In the opinion of the directors, the ultimate holding company is Wellglow Investments Limited, a company incorporated in the British Virgin Islands.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants (the “HKICPA”) has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2005. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company’s profit and loss account to the extent of dividends received and receivable. The Company’s interests in subsidiaries are stated at cost less any impairment losses.



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3. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.



NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|----------------------------|----------------------|
| Leasehold land | Over the lease terms |
| Buildings | 2% to 4.5% |
| Leasehold improvements | 18% to 20% |
| Plant and machinery | 9% to 20% |
| Furniture and equipment | 10% |
| Motor vehicles and vessels | 20% |

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms. Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis. They are stated at cost less any impairment losses, on an individual investment basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the specific item basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.



NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following years. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year and prior years by the employees and carried forward.



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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance in Hong Kong for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the People's Republic of China ("PRC") are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to make contributions based on a percentage of the payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.



NOTES TO FINANCIAL STATEMENTS

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3. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits or contributed surplus within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

4. *SEGMENT INFORMATION*

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the fur segment engages in the trading of fur pelts, and the manufacture and sale of fur garments;
- (b) the leather segment engages in the trading of tanned leather, and the manufacture and sale of leather garments;
- (c) the fabric garments segment engages in the manufacture and sale of fabric garments; and
- (d) the corporate and others segment comprises corporate income and expense items, and the trading of other products.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

NOTES TO FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

| | Fur | | Leather | | Fabric garments | | Corporate and others | | Consolidated | |
|---|----------------|---------------|----------------|---------------|-----------------|---------------|----------------------|-----------------|----------------|----------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 |
| Segment revenue: | | | | | | | | | | |
| Sales to external customers | <u>73,400</u> | <u>52,504</u> | <u>24,058</u> | <u>25,085</u> | <u>17,052</u> | <u>11,716</u> | <u>805</u> | <u>331</u> | <u>115,315</u> | <u>89,636</u> |
| Segment results | <u>15,002</u> | <u>10,330</u> | <u>6,372</u> | <u>4,037</u> | <u>4,170</u> | <u>1,942</u> | <u>(12,568)</u> | <u>(13,646)</u> | <u>12,976</u> | <u>2,663</u> |
| Interest income | | | | | | | | | <u>219</u> | <u>234</u> |
| Profit from operating activities | | | | | | | | | <u>13,195</u> | <u>2,897</u> |
| Finance costs | | | | | | | | | <u>(213)</u> | <u>(332)</u> |
| Profit before tax | | | | | | | | | <u>12,982</u> | <u>2,565</u> |
| Tax | | | | | | | | | <u>(675)</u> | <u>-</u> |
| Net profit from ordinary activities attributable to shareholders | | | | | | | | | <u>12,307</u> | <u>2,565</u> |
| Segment assets | <u>87,911</u> | <u>67,846</u> | <u>16,910</u> | <u>14,016</u> | <u>10,027</u> | <u>8,083</u> | <u>(6,647)</u> | <u>5,544</u> | <u>108,201</u> | <u>95,489</u> |
| Unallocated assets | | | | | | | | | <u>29,370</u> | <u>26,369</u> |
| Bank overdrafts included in segment assets | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>13,669</u> | <u>166</u> | <u>13,669</u> | <u>166</u> |
| Total assets | | | | | | | | | <u>151,240</u> | <u>122,024</u> |
| Segment liabilities | <u>2,745</u> | <u>1,903</u> | <u>957</u> | <u>663</u> | <u>49</u> | <u>62</u> | <u>4,408</u> | <u>3,727</u> | <u>8,159</u> | <u>6,355</u> |
| Unallocated liabilities | | | | | | | | | <u>753</u> | <u>348</u> |
| Bank overdrafts included in segment assets | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>13,669</u> | <u>166</u> | <u>13,669</u> | <u>166</u> |
| Total liabilities | | | | | | | | | <u>22,581</u> | <u>6,869</u> |
| Other segment information: | | | | | | | | | | |
| Depreciation | <u>607</u> | <u>635</u> | <u>523</u> | <u>540</u> | <u>392</u> | <u>407</u> | <u>46</u> | <u>45</u> | <u>1,568</u> | <u>1,627</u> |
| Surplus on revaluation recognised directly in the profit and loss account | <u>(1,342)</u> | <u>(94)</u> | <u>(913)</u> | <u>(66)</u> | <u>(755)</u> | <u>(54)</u> | <u>(9)</u> | <u>(2)</u> | <u>(3,019)</u> | <u>(216)</u> |
| Surplus on revaluation recognised directly in equity | <u>(2,194)</u> | <u>(253)</u> | <u>(2,194)</u> | <u>(253)</u> | <u>(1,567)</u> | <u>(181)</u> | <u>(314)</u> | <u>(36)</u> | <u>(6,269)</u> | <u>(723)</u> |
| Impairment of long term investments | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,262</u> | <u>2,102</u> | <u>1,262</u> | <u>2,102</u> |
| Capital expenditure | <u>143</u> | <u>293</u> | <u>143</u> | <u>203</u> | <u>103</u> | <u>166</u> | <u>20</u> | <u>3</u> | <u>409</u> | <u>665</u> |



NOTES TO FINANCIAL STATEMENTS
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4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group

| | Hong Kong | | Mainland China | | Germany | | United States of America | | Other countries | | Consolidated | |
|---|---------------|---------------|----------------|---------------|---------------|---------------|-----------------------------|--------------|-----------------|---------------|----------------|----------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 |
| Segment revenue: | | | | | | | | | | | | |
| Sales to external customers | <u>44,377</u> | <u>28,588</u> | <u>23,619</u> | <u>26,051</u> | <u>26,897</u> | <u>21,641</u> | <u>6,636</u> | <u>1,912</u> | <u>13,786</u> | <u>11,444</u> | <u>115,315</u> | <u>89,636</u> |
| Other segment information: | | | | | | | | | | | | |
| Segment assets | <u>20,558</u> | <u>40,842</u> | <u>86,928</u> | <u>53,848</u> | <u>224</u> | <u>186</u> | <u>281</u> | <u>94</u> | <u>210</u> | <u>519</u> | <u>108,201</u> | <u>95,489</u> |
| Unallocated assets | | | | | | | | | | | <u>29,370</u> | <u>26,369</u> |
| Bank overdrafts included in segment assets | <u>13,669</u> | <u>166</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>13,669</u> | <u>166</u> |
| Total assets | | | | | | | | | | | <u>151,240</u> | <u>122,024</u> |
| Capital expenditure | <u>-</u> | <u>595</u> | <u>409</u> | <u>70</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>409</u> | <u>665</u> |

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

NOTES TO FINANCIAL STATEMENTS

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6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

| | Note | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------|------------------|------------------|
| Cost of inventories sold | | 83,215 | 66,143 |
| Write-back for slow-moving inventories included in cost of inventories sold* | | (5,701) | (5,810) |
| Depreciation | 14 | 1,568 | 1,627 |
| Auditors' remuneration | | 683 | 628 |
| Minimum lease payments under operating leases in respect of land and buildings | | 421 | 1,123 |
| Impairment of long term investments** | | 1,262 | 2,102 |
| Staff costs (including directors' remuneration-note 8): | | | |
| Wages and salaries | | 13,900 | 12,895 |
| Pension scheme contributions | | 438 | 628 |
| Total staff costs | | 14,338 | 13,523 |
| Loss/(gain) on disposal of fixed assets | | 65 | (40) |
| Revaluation surplus on fixed assets | | (3,019) | (216) |
| Foreign exchange losses, net | | 92 | 162 |
| Interest income | | (219) | (234) |
| | | 14,338 | 13,523 |

* The write-back mainly relates to goods which were sold during the year.

** The impairment of long term investments is included in "Other operating expenses" on the face of the consolidated profit and loss account.

7. FINANCE COSTS

| | Group | |
|--------------------------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Interest on bank overdrafts | 197 | 302 |
| Interest on a hire purchase contract | 16 | 30 |
| | 213 | 332 |
| | 213 | 332 |



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8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group | |
|---|---------------------|---------------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Fees | <u>40</u> | <u>–</u> |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 3,296 | 3,170 |
| Pension scheme contributions | <u>36</u> | <u>36</u> |
| | <u>3,332</u> | <u>3,206</u> |
| | <u>3,372</u> | <u>3,206</u> |

Fees of HK\$40,000 (2004: Nil) were paid to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

| | Number of directors | |
|--------------------------------|----------------------------|-----------------|
| | 2005 | 2004 |
| Nil to HK\$1,000,000 | 5 | 4 |
| HK\$1,000,001 to HK\$1,500,000 | <u>1</u> | <u>1</u> |
| | <u>6</u> | <u>5</u> |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2004: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2004: two) non-director, highest paid employees are as follows:

| | Group | |
|---|-------------------|-------------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Salaries, allowances and benefits in kind | 452 | 443 |
| Pension scheme contributions | <u>21</u> | <u>21</u> |
| | <u>473</u> | <u>464</u> |

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9. FIVE HIGHEST PAID EMPLOYEES (continued)

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

| | Number of employees | |
|----------------------|---------------------|----------|
| | 2005 | 2004 |
| Nil to HK\$1,000,000 | <u>2</u> | <u>2</u> |

10. TAX

No provision for Hong Kong profits tax has been made as the Group has available tax losses brought forward from prior years to offset the assessable profits generated during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | Group | |
|--------------------------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Current tax charge in Mainland China | <u>675</u> | <u>–</u> |

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

| | 2005 | | 2004 | |
|--|---------------|------|--------------|------|
| | HK\$'000 | % | HK\$'000 | % |
| Profit before tax | <u>12,982</u> | | <u>2,565</u> | |
| Tax at the statutory tax rate | 2,272 | 17.5 | 449 | 17.5 |
| Different tax rates for specific countries and provinces | (190) | | 69 | |
| Income not subject to tax | (471) | | (108) | |
| Expenses not deductible for tax | 711 | | 555 | |
| Tax losses utilised from previous periods | (1,647) | | (1,106) | |
| Tax losses not recognised | – | | 141 | |
| Tax charge at the Group's effective rate | <u>675</u> | | <u>–</u> | |

The Group has tax losses arising in Hong Kong of HK\$19,498,000 (2004: HK\$22,150,000) that are available indefinitely and in Mainland China for HK\$1,398,000 (2004: HK\$6,389,000) that are available for a maximum of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as the utilisation of these losses is uncertain.



NOTES TO FINANCIAL STATEMENTS
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11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2005 dealt with in the financial statements of the Company was HK\$15,421,000 (2004: HK\$3,293,000).

12. DIVIDENDS

| | 2005 | 2004 |
|---|---------------------|--------------|
| | HK\$'000 | HK\$'000 |
| Interim – HK0.6 cents (2004: Nil) per ordinary share | 1,902 | – |
| Proposed final – HK1.0 cent (2004: HK1.0 cent) per ordinary share | 3,170 | 3,170 |
| | <u>5,072</u> | <u>3,170</u> |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$12,307,000 (2004: HK\$2,565,000) and 317,035,700 ordinary shares in issue during the years.

Diluted earnings per share amounts for the years ended 31 March 2005 and 2004 have not been disclosed as no diluting events existed during these years.



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14. FIXED ASSETS

Group

| | 2004 HK\$'000 | Additions HK\$'000 | Revaluation surplus HK\$'000 | Disposals HK\$'000 | 2005 HK\$'000 |
|------------------------------|------------------|-----------------------|------------------------------------|-----------------------|------------------|
| At valuation: | | | | | |
| Leasehold land and buildings | 26,143 | – | 8,498 | – | 34,641 |
| At cost: | | | | | |
| Leasehold improvements | 3,493 | – | – | – | 3,493 |
| Plant and machinery | 5,537 | 239 | – | – | 5,776 |
| Furniture and equipment | 2,160 | – | – | (249) | 1,911 |
| Motor vehicles and vessels | 2,829 | 170 | – | – | 2,999 |
| | <u>40,162</u> | <u>409</u> | <u>8,498</u> | <u>(249)</u> | <u>48,820</u> |
| Accumulated depreciation: | | | | | |
| Leasehold land and buildings | – | 790 | (790) | – | – |
| Leasehold improvements | 2,859 | 120 | – | – | 2,979 |
| Plant and machinery | 4,826 | 371 | – | – | 5,197 |
| Furniture and equipment | 1,913 | 61 | – | (184) | 1,790 |
| Motor vehicles and vessels | 2,090 | 226 | – | – | 2,316 |
| | <u>11,688</u> | <u>1,568</u> | <u>(790)</u> | <u>(184)</u> | <u>12,282</u> |
| Net book value | <u>28,474</u> | | | | <u>36,538</u> |

The net book value of the Group's fixed assets held under a hire purchase contract included in the total amount of motor vehicles and vessels at 31 March 2005 amounted to HK\$395,000 (2004: HK\$593,000).

The Group's leasehold land and buildings included above are held under the following lease terms:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--------------------|------------------|------------------|
| Hong Kong: | | |
| Medium term leases | 13,740 | 6,826 |
| Mainland China: | | |
| Long term leases | 2,239 | 703 |
| Medium term leases | 18,662 | 18,614 |
| At valuation | <u>34,641</u> | <u>26,143</u> |



NOTES TO FINANCIAL STATEMENTS
31 March 2005

14. FIXED ASSETS (continued)

The Group's leasehold land and buildings were revalued individually at 31 March 2005 by Chung, Chan & Associates, independent professionally qualified valuers, on an open market value, existing use basis. Had the leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts at 31 March 2005 would have been HK\$17,956,000 (2004: HK\$15,368,000).

Certain of the Group's leasehold land and buildings with net book value of approximately HK\$13,180,000 (2004: HK\$6,336,000) were pledged to secure banking facilities granted to the Group (note 24).

15. LONG TERM INVESTMENTS

| | Group | |
|--------------------------------------|-----------------|--------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Unlisted equity investments, at cost | 3,364 | 3,364 |
| Less: Provision for impairment | (3,364) | (2,102) |
| | <u>—</u> | <u>1,262</u> |

16. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------------|-----------------------|----------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares, at cost | 104,256 | 104,256 |
| Less: Provision for impairment | (52,200) | (68,400) |
| | <u>52,056</u> | <u>35,856</u> |
| Due from a subsidiary | <u>73,657</u> | <u>79,500</u> |
| | <u>125,713</u> | <u>115,356</u> |

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

31 March 2005

16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries, all of which are wholly-owned, are as follows:

| Name | Place of incorporation/ registration and operations [@] | Nominal value of issued/paid- up capital | Principal activities |
|--|---|---|--|
| Peking Fur and Leather Limited* | British Virgin Islands/ Hong Kong | Ordinary US\$1,000 | Investment holding |
| Peking Fur Factory (Hong Kong) Limited | Hong Kong | Ordinary HK\$200 Deferred HK\$1,200,000 [#] | Design and sale of leather garments, fur garments and other garments and the trading of tanned leather and fur pelts |
| Gangjing Fur & Leather (Shenzhen) Factory Ltd. [^] | PRC | RMB7,600,000 | Design, manufacture and sale of leather garments, fur garments and other garments |
| Jiayi Fashion (Shenzhen) Co., Ltd. [^] | PRC | HK\$2,000,000 | Manufacture and sale of leather garments and other garments |
| J & S International Equities Holdings Ltd. | British Virgin Islands/PRC | Ordinary US\$1 | Provision of agency services |
| Lagocircle Limited | British Virgin Islands/ PRC | Ordinary US\$1 | Provision of agency services |
| Peking Leather Factory Limited | Hong Kong | Ordinary HK\$100,000 | Dormant |
| K and K Fur Creation Limited | Hong Kong | Ordinary HK\$200,000 | Investment holding |

[@] Unless otherwise stated, the place of operations is the place of incorporation or registration.

[#] The non-voting deferred shares carry practically no rights to dividends, to receive notice of or to attend or vote at any general meeting of the company, or to participate in any distribution on winding-up.

^{*} Directly held by the Company.

[^] Registered as wholly-foreign owned enterprises under PRC law.



NOTES TO FINANCIAL STATEMENTS
31 March 2005

17. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period is generally for a period of one to three months, extending up to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date, is as follows:

| | Group | |
|--|----------------------|----------------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Within 3 months | 6,220 | 5,284 |
| 4 to 6 months | 396 | 4,140 |
| 7 to 12 months | 4,993 | 446 |
| Over 1 year | 407 | 1,483 |
| | <u>12,016</u> | <u>11,353</u> |
| Less: Provision for bad and doubtful debts | (529) | (1,306) |
| | <u><u>11,487</u></u> | <u><u>10,047</u></u> |

18. INVENTORIES

| | Group | |
|----------------|-----------------|---------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Raw materials | 63,672 | 47,188 |
| Finished goods | 4,539 | 3,837 |
| | <u>68,211</u> | <u>51,025</u> |

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$34,521,000 (2004: HK\$22,935,000) as at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

31 March 2005

19. HIRE PURCHASE CONTRACT PAYABLE

The Group purchased a motor vehicle under a hire purchase contract with a term of three years. At the balance sheet date, the total future minimum lease payments under the hire purchase contract and their present values were as follows:

Group

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---------------------------|----------|--|----------|
| | 2005 | 2004 | 2005 | 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Amounts payable: | | | | |
| Within one year | 147 | 221 | 144 | 204 |
| In the second year | — | 147 | — | 144 |
| | 147 | 368 | 144 | 348 |
| Total minimum hire purchase contract payments | 147 | 368 | 144 | 348 |
| Future finance charges | (3) | (20) | | |
| Total net hire purchase contract payable | 144 | 348 | | |
| Portion classified as current liabilities | (144) | (204) | | |
| Long term portion | — | 144 | | |

20. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

| | Group | |
|-----------------|----------|----------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Within 3 months | 1,518 | 1,299 |
| 4 to 6 months | 1,146 | 219 |
| 7 to 12 months | 387 | 1 |
| Over 1 year | 146 | 89 |
| | 3,197 | 1,608 |
| | 3,197 | 1,608 |



NOTES TO FINANCIAL STATEMENTS

31 March 2005

21. SHARE CAPITAL

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Authorised: | | |
| 1,000,000,000 ordinary shares of HK\$0.10 each | <u>100,000</u> | <u>100,000</u> |
| Issued and fully paid: | | |
| 317,035,700 ordinary shares of HK\$0.10 each | <u>31,704</u> | <u>31,704</u> |

22. SHARE OPTION SCHEME

On 29 August 2002, a share option scheme (the “Scheme”) was adopted by the shareholders of the Company. The Scheme will remain in force for 10 years from the date of adoption.

The purpose of the Scheme is to provide incentives or rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest (the “Invested Entity”). Eligible participants of the Scheme include employees and directors of the Group or the Invested Entity, suppliers and customers of the Group and the Invested Entity, any person or entity that provides research, development or other technological support to the Group or the Invested Entity, and shareholders of the Group or the Invested Entity.

The maximum number of shares issuable under share options currently permitted to be granted under the Scheme is 31,703,570, representing 10% of the issued shares of the Company. The maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the shares of the Company in issue at any time. The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and may commence on the date of the offer and shall end no later than 10 years from the date of the offer.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of the grant) in excess of HK\$5 million within any 12-month period are subject to shareholders’ approval in advance in a general meeting.

The subscription price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company’s shares as stated in the Stock Exchange’s daily quotations sheet on the date of the offer of the options; (ii) the average closing price of the Company’s shares as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the date of the offer of the options; and (iii) the nominal value of the Company’s shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

No share options were granted during the year and there were no share options outstanding at the balance sheet date.



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23. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 17 of the financial statements.

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Group's subsidiaries which are registered in the PRC has been transferred to reserve funds which are restricted as to use.

(b) Company

| | Share premium account | Contributed surplus | Accumulated losses | Total |
|--------------------------------------|-----------------------------|------------------------|-----------------------|---------------|
| Note | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 April 2003 | 49,586 | 102,313 | (71,736) | 80,163 |
| Net profit for the year | – | – | 3,293 | 3,293 |
| Proposed 2004 final dividend | 12 | (3,170) | – | (3,170) |
| At 31 March 2004 and 1 April 2004 | 49,586 | 99,143 | (68,443) | 80,286 |
| Net profit for the year | – | – | 15,421 | 15,421 |
| Interim 2005 dividend | 12 | (1,902) | – | (1,902) |
| Proposed 2005 final dividend | 12 | (3,170) | – | (3,170) |
| At 31 March 2005 | 49,586 | 94,071 | (53,022) | 90,635 |

The Company's contributed surplus represents the excess of the fair value of the subsidiaries acquired under the Group reorganisation at the time of the Company's listing over the nominal value of the Company's shares issued in exchange therefor. Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus in certain circumstances.

24. PLEDGE OF ASSETS

At the balance sheet date, the banking facilities of the Group were secured by the Group's bank deposits and leasehold land and buildings with carrying values of HK\$29,370,000 (2004: HK\$26,369,000) and HK\$13,180,000 (2004: HK\$6,336,000) (note 14), respectively, and guarantees given by the Company.



NOTES TO FINANCIAL STATEMENTS

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25. CONTINGENT LIABILITIES

At the balance sheet date, the contingent liabilities not provided for in the financial statements were as follows:

- (i) The Group had a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance with a maximum possible amount of HK\$1,895,000 (2004: HK\$1,836,000) as at 31 March 2005, as further explained under the heading “Employee benefits” in note 3 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.
- (ii) The Company had given guarantees to banks in connection with banking facilities granted to a subsidiary amounting to HK\$81,930,000 (2004: HK\$71,560,000), of which HK\$13,669,000 (2004: HK\$166,000) was utilised at the balance sheet date.

26. OPERATING LEASE ARRANGEMENTS

The Group leased certain of its shops and offices under operating lease arrangements. These leases expired during the year.

At 31 March 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|-----------------|-------------------|-------------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Within one year | – | 242 |
| | <u> </u> | <u> </u> |

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 July 2005.